ANALYSIS OF NON-PERFORMING ASSETS OF BANKING SECTOR: SPECIAL REFRENCE TO AGRICULTURE SECTOR

Synopsis of the thesis submitted for the Award of the Degree of

DOCTOR OF PHILOSOPHY

In the Faculty of Commerce

MAHARSHI DAYANAND SARASWATI UNIVERSITY, AJMER

By

ANJALI AGARWAL

Under the guidance of

DR. C.P. GUPTA

P.S.B GOVERNMENT COLLEGE, SHAHPURA, BHILWARA

DEPARTMENT OF ECONOMICS AND FINANCIAL ADMINISTRATION

MAHARSHI DAYANAND SARASWATI UNIVERSITY, AJMER

2016

Introduction of Proposed Investigation

Agriculture plays a very important role in the development of India. Agriculture is the backbone of Indian economy. Agriculture credit is one of the major inputs in all agriculture activities. It provides significant support for economic growth and social transformation of the country. Government of India and banks are continually working for development of this sector, but there are certain challenges and risks such as high number of non-performing assets are posing problems. We know that NPA can only be reduced but it cannot be avoided. Even if the banks don't want to sanction the loans they are obligated by the government as it leads to investment of money for development purposes. Especially in agriculture sector sanctioning of credit is of utmost importance as agriculture is the backbone of India and a lot of scope has been given to agricultural sector. NPAs beyond a certain level are indeed cause for concern for everyone involved because credit is essential for economic growth and NPAs affect the smooth flow of credit. NPA are affecting the profit of the banks and it could not allow the banks to meet its capital adequacy ratio.

The Government of India and RBI acknowledging the importance of the role of formal credit for agricultural development and growth, initiated policy to progressively institutionalize agricultural credit system and expand it beyond cooperative credit structure by nationalizing private banks in 1969, establishing regional rural banks in 1975 and subsequently licensing private sector banks since January 1993 and 2001 during post-reform period as credit is one of the critical inputs for agricultural development. It capitalizes farmers to undertake new investments and adopt new technologies, production and marketing activities. Also agricultural credit is an important input for improving agricultural production and productivity and mitigating farmer distress.

Importance of Proposed Investigation

The problem of NPA in the banks is a worldwide problem. NPAs adversely affect the profitability, liquidity and solvency of the banks so; bankers are paying much attention towards non-performing assets. A lot of research work has been carried out taking different aspects by the research scholars. In spite of research work the different experts, thinkers and learned persons also covered the topic NPA, while publishing their articles and research papers. A no. of committees also set up by the central government, related bodies and authorities to solve the problem related to NPAs. Undoubtedly a lot of work done on NPA, but the problem related to NPA in agriculture sector still been neglected.

Murli Manohar Joshi (2016)[1] "Given the global economic situation, the falling commodity prices, continuous fall in exports, and the decline in corporate profitability, and given that the situation on the domestic front also does not look rosy in the immediate future; the NPAs could raise and there could be more defaults. For two years in a row, the rainfall has played havoc on the majority of the population that depends on agriculture, and if this gets repeated for the third year, we are in for the biggest NPA in our country i.e. agriculture. This is something our country cannot afford." The issue of non-performing assets, the main cause of the recent global financial crisis, has been drawing the attention of the policy makers and academicians alike. In this critical situation, the research is must to understand the real scenario, size of problem, cause of problem etc. therefore the present study, "**ANALYSIS OF NON-PERFORMING ASSETS OF BANKING SECTOR: SPECIAL REFRENCE TO AGRICULTURE SECTOR** "is most relevant in the present scenario of banking and finance and overall economy of the nation, regard less the country of rest of the world.

Review (work already done on the subject of proposed research study)

Baiju S. And Garbriel Thattil (2000)[2] conducted the study on NPAs in the banking sector taking the current position of SCBs. They graded all the four categories – SBI Group, Nationalized Banks, Other Scheduled Commercial Banks and Foreign Banks into very good, good, bad and worst group on the basis of Capital adequacy and non performing assets.

Sharma and Bardia (2003)[3] suggested that the NPAs are to be kept within tolerance level of the bank as because it is the inevitable burden of any bank. The banks should grant loans only after judging the credit worthiness of their customers. In order to accomplish this objective, the banks should use the refined methods of credit risk management.

Sahu and Rajasekhar (2005)[4] concluded that agriculture is a risky activity where farmers face shocks to their income; even though it appears that banks in India have been practicing a tight credit rationing process, while selecting their borrowers.

Acharya (2006)[5] argued that the rural credit system assumes importance because most Indian rural families have inadequate savings to finance farming and other economic activities. The need for agricultural credit arises because modern farm technology is costly and the personal resources of the farmers are inadequate. A farmer's inability or least limited ability to save does not allow him to finance his pursuits and raise better production from his farms.

Vallabh, G., Mishra, S. and Bhatia, A. (2007)[6] conducted the study on the analysis NPAs of public, private, and foreign sector banks in India. This study was aimed at finding the fundamental factors which impact NPAs of banks. This study explores an empirical approach to the analysis of Non-Performing Assets (NPAs) of public, private and foreign sector banks in India. The NPAs are considered as an important parameter to judge the performance and financial health of banks.

G.V. Bhavani Prasad, D. Veena (2011)[7] in their study on NPAs Reduction Strategies for Commercial Banks in India stated that the problem of NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits, thus NPAs have destructive impact on the return on assets in the following ways.

Kaur and Saddy (2011)[8] in the research paper entitled "A Comparative Study of Non-Performing Assets of Public and Private Sector Banks" an attempt is made to clarify the concept of NPA, the factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operations. Besides capital to risk weight age assets ratio of Public and Private sector banks, management of credit risk and measures to control the threat of NPAs are also discussed.

Chandan Chatterjee, Jeet Mukherjee, DR. Ratan Das (2012)[9] conducted the study on "Management of non-performing assets –A Current Scenario" has concluded that NPAs have a negative influence on the achievement of capital adequacy level, funds mobilization and deployment policy, banking system credibility, productivity and overall economy.

B. Selvarajan and Dr. G. Vadivalagan (2013)[10] conducted a Study on Management of Non Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs). "Analyzed that the management of Indian Bank is better than that of Public Sector Banks as a whole. Indian Bank is still not comfortable in the area of NPA management. Therefore, the management of Indian Bank must pay special attention towards the NPA management and take appropriate steps to arrest the creation of new NPAs, besides making recoveries in the existing NPAs.

Srinivas KT (2013)[11] conclude that "the banks can avoid sanctioning loans to the noncreditworthy borrowers by adopting certain measures. Banker can constantly monitor the borrower in order to ensure that the amount sanctioned is utilized properly for the purpose to which it has been sanctioned".

Sikdar and Makkad (2013)[12] this paper provide insight on the role of NPA in risk frame work of selected Indian commercial banks and try to put forward the means of interpreting credit risk from existing levels of bank NPAs. Further, research highlights the significant steps taken and procedures implemented by major Indian commercial banks, within the public and private sector, towards recovery of loans and advances falls into the NPA bracket. The study conclude that problem of NPAs can be tackled only with proper credit assessment and risk management mechanism.

Narula and Singla (2014)[13] evaluate the non – performing assets of Punjab National Bank and its impact on profitability & to see the relation between total advances, Net Profits, Gross & Net NPA. The study uses the annual reports of Punjab National Bank for the period of six years from 2006-07 to 2011-12. These

papers conclude that there is a positive relation between Net Profits and NPA of PNB. It is because of the mismanagement on the side of bank.

Arpita Baijal (2015)[14] conducted a study on High Ratio of Agriculture NPAS in Priority Sector Lending by Public and Private Banks in India –Reasons, Suggestions and Discussions and thereby concluded that certain alternative methods as extension agriculture activities and fair price mechanisms should be practiced. The main objective of this paper is to first throw light on some systemic reasons behind the high number of NPAs in the agricultural sector, and then offer suggestions to reduce them.

Dr.S.Matkar and Mr. A. K. Jadhao (2015)[15] in the research paper "AGRICULTURAL CREDIT IN INDIA: STATUS AND PROBLEMS" give a brief description on the role of agriculture in the development of country. Credit capitalizes farmers to undertake new investments and adopt new technologies, production and marketing activities. Bank credit is available to the farmers in the form of short-term credit for financing crop production programs and in the form of medium-term/long–term credit for financing capital investment in agriculture and allied activities. In this research paper researchers focused on Indian agricultural credit and credit issues and challenges.

Vivek Rajbahadur Singh (2016)[16] conducted the study on Non-Performing Assets of Commercial Banks and its recovery in India. This study shows that extent of NPA is comparatively very high in public sectors banks. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent.

Research gaps identified in the proposed field of investigation

Although different researchers considered a number of aspects of NPA and carried out their research work. Any how their study mainly emphasized on the NPA focusing overall view. But present study set to highlight the NPA particularly related to agriculture sector. Thus, the review of literature available on NPA highlighted the necessity to study management of NPA with specific focus to examine (1) the status of Non-Performing Assets of banks in agriculture sector in India. (2) The reasons for agriculture NPA in banking sector in India. (3) The difficulties in the non-performing assets (NPAs) management of Indian banking sector (4) the role of policies and administrative procedures in NPA. The research gaps and relevant questions which strike the mind during observation of various studies on non-performing assets that, what is the level of NPA in Commercial banks related to agriculture sector? What are the reasons for the assets becoming Non- Performing assets and what is its impact on performance of a bank, public, government and society.

Undoubtedly India is such a country in which agriculture sector is prime sector and more or less 80% population depends on agriculture. In agriculture sector sanctioning of credit is utmost important as agriculture is the back bone of India. NPAs beyond a certain level are indeed cause for concern for everyone involved because credit is essential for economic growth and NPAs affect the smooth flow of credit therefore the present study will prove more worth in comparison studies on NPA carried out in past. This study aims to high light on some systemic reasons behind the high number of NPAs in the agricultural sector, and then offers suggestions to reduce them.

Objectives of Proposed Investigation

1. To examine the nature and the problem of the NPA of banking sector in India.

2. To identify and analyze the trends of NPA in banking sector.

3. To study the root causes and major factors responsible for NPA in agriculture sector in India.

4. To study the Government policies of agriculture credit.

5. To study the level of agriculture NPA in priority sector lending including agriculture, SSI and others.

6. To study the recovery of NPA through various channels .

7. To make practical recommendations for improving NPA.

Major Hypothesis

H_0: There is no significant increase in NPA of scheduled commercial banks (SCB_S) and NPA of SCB_S in agriculture sector.

H_1: There is a significant increase in NPA of scheduled commercial banks (SCB_S) and NPA of SCB_S in agriculture sector..

Research Methodology: -

Methodology is the systematic, theoretical analysis of the methods applied to a field of study, or the theoretical analysis of the body of methods and principles associated with a branch of knowledge**.** The present study is aims to analyze the NPA of banks in agriculture sector in India.

Research Design: -

The present study is descriptive in nature with appropriate analytical discussions presented in tune with the proposed objectives. The primary objective of the study is to find out the issue of Non-performing assets of banks in agriculture sector. In addition, the study covers to find out the ways and means in which the issue can overcome in the years to come.

Study Period: **-**

Continuous efforts were made by RBI to controlling and analyze the phenomena of NPA. Having by the study units, a large span of period is considered after discussion made with persons concerned with banking sector and ultimately ten years from 2005- 06 to 2014-15 was considered as the study period the period may be consider as most suitable period for growth and development of the banking sector as a part and Indian economy as a whole. The period remain for improvement of banking functioning due to extra ordinary alternative of governing bodies particularly RBI and Central Government of India. During this period new guidelines, norms and regulations issued by RBI and sufficient emphasis was given for speedy recovery of NPA.

Population:

The NPA is directly related to banking sector of economy. The banking sector having wide and varied banks including Public, Private, Foreign, Cooperatives banks etc. The study will be centralized its focused on the overall scenario of NPA in the banking sector as a whole. Besides as a whole banking sector, the agriculture sector will be considered as a base of study. Where aggregate data related to NPA for Public sector, Private sector and foreign sector will used.

Data Collection:

In order to collect necessary and related figure, facts, information and data will be collected using primary and secondary sources. Specially for the study period of 2004-05 to2014-15. The secondary data collected from Reserve Bank of India (RBI) bulletins, statistical tables relating to banks in India, Report on trend and progress of banking in India, issued by the RBI, IBA bulletins, Annual reports of banks, Different journals on banking, economics and Finance. This process is further supplemented by extensive library research reviewing newspapers, periodicals, magazines articles on NPA etc.

Analysis of data:

The collected data, figures and facts will be analyzed using appropriate statistical and financial techniques such as Trend analysis, T test, Percentages, Averages, Financial ratios besides analysis of comparative statements.

Chapter wise details of Proposed Research

The output of the proposed research work will be studied over in the six chapters as given below: -

Chapter 1: An Overview of NPA in Indian Banking Sector: -

A brief introduction about Indian banking sector, the concept and classification of NPA. NPA related norms: general and specific for agriculture sector, RBI guidelines for NPA norms. NPA and agriculture credit in India.

Chapter 2: Review of literature: -

Comprises of a review of past studies in the area of research i.e. Analysis of NPA of banks, and highlight on research gaps identified in the proposed field of investigation. (Based on the review)

Chapter 3: Research methodology: -

Significance of the present study, Objectives of the study, Hypotheses of the study, Research design, Data collection, Study period, Study variables, Techniques of data analysis.

Chapter 4: Analysis of causes, impact and recovery of NPA: -

Identification of causes of NPA in banking sector as a whole and as a part agriculture sector, Impact on banking and study of legal frame work of NPA recovery.

Chapter 5: Analysis of Data: -

Analysis of NPA (2005-06 to 2014-15) in banking sector as a whole and as a part agriculture sector using different statistical and financial techniques such as trend analysis, t-test, average, percentage, comparative statement and financial ratio i.e., Gross NPA to Gross Advances Ratio, Net NPA to Net Advance, Gross NPA and Net NPA to Total Assets.

Chapter 6: A Summary of Findings, recommendations and Conclusions: -

Observations of the study, Recommendations made by the researcher, Suggestions offered and Conclusion.

List of References cited

Murli manohar joshi (2016) Budget 2016: Focus on the biggest NPA in the making – Agriculture, from http://economictimes.indiatimes.com/articleshow/51165402.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Baiju, S. and Tharril, G.S. (2000), "Performance Banks with Non-performing Assets: An Analysis of NPAs, Yojna, March 2000, Pp 5-9.

Sharma S.G. and Bardia S.C.(June 2003), "Managing NPAs in Banks", Indian Journal of Accounting, Vol.XXXIII, June 2003, pp.23-28.

Sahu GB, Rajasekhar D (2005). Banking Sector Reform and Credit Flow to Indian Agriculture. Econ. Polit., pp. 5550-5559.

Acharya SS (2006). Agricultural marketing and rural credit for strengthening India agriculture. INMR Policy Brief No. 3: Asian Development Bank.

Vallabh, G., Mishra, S. sand Bhatia, A. (2007), "Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment", ICFAI Journal of Bank Management, Vol. 6, No. 3, pp. 7-28, August 2007.

Prasad, G.V.B. & Veena, D.(2011), "NPAs Reduction Strategies for Commercial Banks in India",IJMBS Vol. 1, Issue 3, 2011.

Kaur, H., and Saddy, N. K. (2011). A Comparative Study of Non-Performing Assets of Public and Private Sector Banks. International Journal of Research in Commerce & Management, 2(9), 82-89, retrieved on February 2nd 2015 from http://ijrcm.org.in/download.php?name=ijrcm-1-vol-2_issue-9art15.pdf&path=uploaddata/ijrcm-1-vol-2_issue-9-art-15.pdf.

Chatterjee, C., Mukherjee, J. and Das, R.(2012), "Management of nonperforming assets – a current scenario", International Journal of Social Science and Interdisciplinary Research, Vol.1Issue 11, 2012,Pp 204-214.

Aggarwal, S., & Mittal, P. (2012). "Non-Performing Assets: Comparative Position of Public and Private Sector Banks in India. International Journal of Business and Management Tomorrow, 7.

B.Selvarajan & Dr. G. Vadivalagan(2013), "A Study on Management of Non Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks(PSBs)", Global Journal of Management and Business Research.Volume 13 Issue 1 Version 1.0 Year 2013

Srinivas, K. T. (2013). A Study on Non- Performing Assets of Commercial Banks in India. International Monthly Refereed Journal of Research in Management & Technology,2,61-69, retrieved on February 3rd, 2015 from http://www.abhinavjournal.com/images/Management_&_Technology/Dec13/10.pdf

Sikdar, P., & Makkad, M. (2013). Role of Non Performing Assets in the Risk Framework of Commercial Banks – A Study of Select Indian Commercial Banks.

AIMA Journal of Management & Research, 7(2/4), 1-19, retrieved on February 2nd 2015 from https://apps.aima.in/ejournal_new/articlesPDF/PallabSikdar.pdf

Narula, S., & Singla, M. (2014). Empirical Study on Non Performing Assets of Bank. International Journal of Advance Research in Computer Science and Management Studies,2(1), 194-199, retrieved on February 2nd 2015 from www.ijarcsms.com/docs/paper/volume2/issue1/v2i1-0032.pdf

Arpita Baijal (2015), "High Ratio of Agriculture NPAS In Priority Sector Lending By Public And Private Banks In India –Reasons, Suggestions And Discussions" Volume 4 Issue 4, April 2015 www.ijsr.net

Dr. S. Matkar and Mr. A. K. Jadhao (June 2015),"AGRICULTURAL CREDIT IN INDIA: STATUS AND PROBLEMS" Volume 3, No. 2, Apr. – Jun., 2015 www.researchfront.in

Vivek Rajbahadur Singh (2016), "A Study of Non-Performing Assets of Commercial Banks and it's recovery in India", Annual Research Journal of Symbiosis Centre for Management Studies, Pune Vol. 4, March 2016 from www.scmspune.ac.in/chapter/2016/Chapter%209.pdf

Outline Approved Signature of candidate with date

Name & signature of supervisor
With date and seal.

MAHARSHI DAYANAND SARASWATI UNIVERSITY
AJMER

Format for Outline of Proposed Research work

1. Name of the Scholar (In English) Anjali Agarwal

   (In Hindi) अंजली अग्रवाल

2. Title of research work (In English) **"ANALYSIS OF NON PERFORMING ASSETS OF BANKING SECTOR: SPECIAL REFRENCE TO AGRICULTURE SECTOR"**

   (In Hindi) बैकिंग क्षेत्र की गैर निष्पादित परिसंपत्तियों का विश्लेषण : कृषि क्षेत्र के विशेष संदर्भ में ।

3. Location:
   a. Department: Department Of Economics And Financial Administration(E.A.F.M.)
      P.S.B. Government College,Shahpura , Bhilwara (Rajasthan)

   b. Geographical area of investigation: Banking sector in India

4. Introduction of Proposed Investigation

5. Importance of Proposed Investigation

6. Review (Work already done on the subject of proposed Research Study.)

7. Research gaps identified in the proposed field of investigation. (Based on the review)

8. Objectives

9. Major Hypothesis

10. Research Methodology

11. Chapter wise details of ProposedResearch

12. List of References cited.

Anjali Agarwal. 01/02/2017

Signature of the Candidate with date

Outline Approved 01/02/2017

Name and Signature of supervisor with date and seal.